

Message Text

CONFIDENTIAL

PAGE 01 NASSAU 01465 162001Z

62

ACTION ARA-10

INFO OCT-01 ISO-00 PRS-01 SS-15 SSO-00 PA-01 EB-07 INR-07

INRE-00 L-03 SP-02 ARAE-00 /047 W

----- 022515

O 152036Z SEP 76

FM AMEMBASSY NASSAU

TO SECSTATE WASHDC IMMEDIATE 8635

C O N F I D E N T I A L N A S S A U 1 4 6 5

STADIS//////////

E.O. 11652: GDS

TAGS: EFIN CFED BFUS

SUBJ: LA TIMES STORY ON PROPOSED TAX TREATY WITH THE BAHAMAS

REF: NASSAU 1404

1. NASSAU TRIBUNE REPORTER IVAN JOHNSON TELEPHONED THIS MORNING TO ASK FOR EMBASSY'S COMMENT ON STORY WHICH HE CLAIMED WAS PRINTED IN THE LOS ANGELES TIMES SEPTEMBER 13, BYLINED BY ROBERT JACKSON AND ORIGINATED IN LA TIMES WASHINGTON BUREAU. JOHNSON RECEIVED STORY BY PHONE FROM TRIBUNE'S CONTACT ON THE HERALD STAFF. FOLLOWING IS PORTION OF ARTICLE AS DICTATED BY JOHNSON (HE FAILED TO RECORD IT IN FULL AND STATED THAT MIAMI HERALD DID NOT INTEND TO CARRY IT.):

2. QUOTE THE U.S. TREASURY AND STATE DEPARTMENT HAVE BEGUN WHAT PROMISE TO BE CONTROVERSIAL NEGOTIATIONS TOWARDS A POSSIBLE TAX TREATY WITH THE BAHAMAS. IF ADOPTED BY BOTH COUNTRIES, THE TREATY COULD HASTEN THE END OF OFF-SHORE TAX HAVENS IN THE BAHAMAS WHICH U.S. AUTHORITIES SAY HAVE COST THE U.S. HUNDREDS OF MILLIONS OF DOLLARS. UNDER SUCH AN AGREEMENT, THE BAHAMIAN GOVERNMENT COULD BE CALLED ON BY THE U.S. IRS TO PROVIDE DETAILS OF THE ACCOUNTS OF AMERICANS IN THE ISLANDS. THIS COULD REMOVE SOME OF THE ATTRACTIVENESS OF FOREIGN TRUST ACCOUNTS WHICH WEALTHY U.S. CITIZENS HAVE OPENED IN THE BAHAMAS IN RECENT YEARS BUT HOW TOUGH THE CONFIDENTIAL

CONFIDENTIAL

PAGE 02 NASSAU 01465 162001Z

TREATY WILL BE IS UNCERTAIN. SOME U.S. AUTHORITIES SAY

THE BAHAMAS GOVERNMENT WILL INSIST ON A COSMETIC AGREEMENT WITH GIVES THE APPEARANCE OF COOPERATION BUT WHICH STILL LEAVES INTACT THE BANK SECRECY LAWS. DAVID FOSTER, THE TREASURY DEPARTMENT INTERNATIONAL TAX COUNSEL, SAID "THE BAHAMIAN SECRECY ACT IS A QUESTION WE WOULD HOPE TO EXPLORE IN TREATY TALKS. MAYBE THE TREATY COULD OVERRIDE THE ACT IN SOME CIRCUMSTANCES". "THE BAHAMAS SEEKS INTERESTED IN AVOIDING THE REPUTATION OF THE TAX HAVEN", HE ADDED. ANOTHER SOURCE RE-ECHOED FOSTER'S VIEW SAYING "THE BAHAMAS SEEKS ANXIOUS TO CREATE A SPIRIT OF COOPERATION IN RESPONSE TO A MASSIVE INTERNAL REVENUE SERVICE AND DEPARTMENT OF JUSTICE INVESTIGATION INTO THE AFFAIRS OF THE TAX SHELTERING CASTLE BANK AND TRUST. BUT OUR DISCUSSIONS ARE VERY PRELIMINARY SAID ONE SOURCE. FRANKLY, WE ARE NOT SURE WHAT THE BAHAMAS GOVERNMENT HAS IN MIND. HE ADDED, HOWEVER, THAT AN EFFECTIVE TREATY WOULD ENABLE THE U.S. IRS TO ENSURE THAT ACCOUNTS IN THE TAX HAVEN ARE LEGITIMATE. A SIX PAGE DRAFT TREATY IS BEING CIRCULATED WITHIN TREASURY DEPARTMENT BUT, "...HAS NOT YET REACHED BAHAMIAN OFFICIALS," ONE U.S. OFFICIAL SAID. "I WOULD SAY OUR NEGOTIATORS ARE BEING LED DOWN THE GARDEN PATH" SAID ONE GOVERNMENT INVESTIGATOR. "THE BAHAMAS ARE NOT ABOUT TO GIVE ANYTHING THAT WOULD DIMINISH THEIR TAX STATUS. THEY GET TOO MUCH INCOME LIKE THAT." UNQUOTE

3. EMBASSY MADE NO OFFICIAL COMMENT TN STORY AND SUGGESTED THAT JOHNSON CONTACT DEPT. OF TREASURY AND IRS SHOULD HE HAVE SPECIFIC QUESTIONS. AT SAME TIME, AND OFF THE RECORD, JOHNSON WAS REFERRED TO PRIME MINISTER'S CHICAGO SPEECH OF FEB. 11, 1976 IN WHICH PINNED DENIED THAT BAHAMAS"... REFUSED TO ENTER INTO A TAX TREATY WITH THE U.S...." AND BY IMPLICATION SUGGESTED THAT SUCH A TREATY WOULD BE GIVEN SERIOUS CONSIDERATION IF PROPOSED BY U.S. JOHNSON WAS ALSO TOLD THAT AN ARRANGEMENT WHICH WOULD TAKE INTO ACCOUNT THE LEGITIMATE INTEREST OF BOTH GOVERNMENTS -- THE U.S. IN PREVENTING TAX EVASION AND THE BAHAMAS IN MAINTAINING ITS STATUS AS A LEGITIMATE TAX HAVEN -- AND AT THE SAME TIME FACILITATE THE MAXIMUM DEGREE OF COOPERATION AND THE EXCHANGE OF INFORMATION IN THIS AREA WOULD OBVIOUSLY BE IN THE BEST INTEREST OF BOTH PARTIES. UNLESS OTHERWISE INSTRUCTED BY THE DEPARTMENT,

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 NASSAU 01465 162001Z

EMBASSY DOES NOT PROPOSE TO AMPLIFY ON THIS LINE.

COMMENT: FACT THAT WE ARE FORMULATING A PROPOSAL TO BAHAMAS IS OF COURSE ALREADY KNOWN TO GOVERNMENT AND WAS MADE CLEAR TO ADDERLEY IN WORKING OUT INTERIM AGREEMENT REPORTED REFTEL. AT SAME TIME SEVERAL PLP MEMBERS OF HOUSE OF ASSEMBLY AND PLP SPONSORED HERALD HAVE FOR SOME TIME MADE A PRIORITY ISSUE OF "MAINTENANCE OF BANK SECRECY AND TAX

HAVEN STATUS" FOR BAHAMAS COME WHAT MAY. THESE ELEMENTS TOGETHER WITH VOCAL SEGMENT OF THE "CONCERNED PUBLIC" I.E. THOSE WHO MIGHT STAND TO LOSE FINANCIALLY WERE SUCH AN ARRANGEMENT ACHIEVED CAN BE EXPECTED TO REACT STRONGLY AND NEGATIVELY TO ANY SUGGESTION THAT GCOB WILLING TO CONSIDER ANY COMPROMISE ON THESE ISSUES. THIS PRESSURE CANNOT BUT LIMIT ADDERLEY'S AND GCOB'S ROOM FOR MANEUVER IN ANY FUTURE NEGOTIATION ASSUMING, AS EMBASSY FEELS WE MUST AT THIS POINT, THAT HE AND HIS GOVERNMENT ARE GENUINELY INTERESTED IN REACHING SOME AGREEMENT. FACT THAT UNNAMED TREASURY AND/OR IRS OFFICIALS WENT SO FAR AS TO CHARACTERIZE BAHAMIAN GOAL IN UPCOMING TALKS AS ACHIEVING A "COSMETIC AGREEMENT", TO INTERPRET THEIR MOTIVES AS RESULTING FROM "MASSIVE ERF AND DEPT OF JUSTICE INVESTIGATIONS" INTO CASTLE BANK AND TO STATE THAT "OUR NEGOTIATORS ARE BEING LED DOWN THE GARDEN PATH" PRIOR TO OUR MAKING AN OFFER MUCH LESS PRIOR TO RECEIVING AN INDICATION OF WHAT BAHAMIAN RESPONSE LIKELY TO BE CAN ONLY MAKE OUR TASK MORE DIFFICULT. THIS IS ESPECIALLY TRUE GIVEN ADDERLEY'S PERSONALITY AND THE EXPRESSED CYNICISM OF BOTH HE AND THE PRIME MINISTER THAT INTENTION OF CERTAIN U.S. AGENCIES I.E. SEC AND IRS VIS A VIS BAHAMAS IS NOT ALWAYS BONA FIDE AND ABOVE BOARD. IN SUM, PREMATURE LEAK, SUBSEQUENT PRESS REPORT, AND WHAT IS BOUND TO BE RESULTING SPECULATION CONCERNING PROPOSED TALKS IS MOST UNFORTUNATE IN THAT IT AFFORDS OPPONENTS OF ACCOMMODATION -- BOTH AMERICAN AND BAHAMIAN -- THE OPPORTUNITY TO EXERT CONSIDERABLE PRESSURE AGAINST REACHING A SATISFACTORY AGREEMENT. IN PARTICULAR, IT WILL ALLOW THEM TO INSERT IN WHAT COULD OTHERWISE HAVE BEEN A LOW KEY, GOVERNMENT TO GOVERNMENT DIALOGUE, THE EXTRANEOUS ISSUE OF "INFRINGEMENT OF BAHAMIAN SOVEREIGNTY" WHICH MIGHT WELL BE DIFFICULT TO REBUT GIVEN HISTORY OF PROJECTS TRADEWINDS AND HAVEN. THIS IN TURN IS COMPLICATED BY FACT THAT BAHAMIANS WILL BE GOING TO POLLS

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 NASSAU 01465 162001Z

SOME TIME DURING NEXT TWELVE MONTHS. EMBASSY HOPES, THEREFORE, THAT DEPARTMENT WILL NOT BE HESITANT IN RELAYING DISPLEASURE TO APPROPRIATE OFFICIALS BOTH IN TREASURY AND IRS.

TAYLOR

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptoning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, PRESS COMMENTS, TAXES, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 SEP 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976NASSAU01465
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760349-1200
From: NASSAU
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760958/aaaabxpu.tel
Line Count: 159
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: 76 NASSAU 1404
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 07 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 JUL 2004 by saccheem>; APPROVED <21 OCT 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: LA TIMES STORY ON PROPOSED TAX TREATY WITH THE BAHAMAS
TAGS: EFIN, CFED, BF, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006